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FEDERAL MARKETING ORDERS FOR MILK-- IN BRIEF

As modern as today's milk processing and distribution system is, the source of this highly perishable and nutritious product that millions of Americans drink every day is still a biological one--the cow that is content not to change much.

While the cow--through better feeding, breeding and management techniques--can produce more milk than ever today, she can't be turned on and off at will to fit the American public's constant need for her indispensable product.

From year to year she can't, because the farmer--with a heavy dairying investment--can't afford to vary the size of his herd, and it takes time to grow a cow to the point of producing milk. To a great extent, the cow can't tailor her production to the market from season to season either, because her milk production--and thus, the total milk supply--is lowest during the fall and winter and peaks in late spring and early summer.

Therein the problem lies. Serious milk shortages can hurt consumers, and market gluts--with consequent lower prices--can be so costly to the farmer that cows have to be sold for meat.

While the milk supply rises and falls with the season, the amount of milk the public consumes stays fairly constant. Milk for drinking is highly perishable and can't be stored as can many other farm products, including cheese and butter.

So the Nation's herds must be large enough to assure an adequate supply of milk during the lowest production period.

Bridging the gaps

It takes a special pricing system to bridge the gaps between supply and demand. At the same time, it must be flexible so prices won't induce burdensome surpluses.

In many parts of the country, dairy farmers have availed themselves of the pricing system authorized by a Federal law, the Agricultural Marketing Agreement Act. The system provides for a marketing order to be established in a particular area where milk is produced and marketed.

A marketing order--through its pricing system--has the effect of encouraging dairymen to maintain large enough herds to meet drinking milk needs during the season of lowest production. Milk not needed for fluid use is used for making cheese, butter, and other products. While some excess milk is produced each month, the amount is heaviest during the spring and summer months of peak production.

Currently, 61 marketing orders operate throughout the country and cover the production of almost 80 percent of the milk we drink.

A marketing order operates this way: Farmers whose milk is marketed under the order are assured of getting at least the uniform minimum price set each month. This uniform price, called a blend price, is an average for all the milk sold, regardless of how it is used.

An order regulates only grade A milk--that is, milk certified by health authorities as suitable for fluid use. The highest valued milk, known as "Class I," is used for drinking. After demand for drinking is met, the remaining supplies of grade A milk are used for manufactured dairy products, including ice cream, butter, cheese, cottage cheese, and milk powder. This "excess" milk is priced at a lower level. The established price level is related to market prices for those products.

Milk order prices are based on supply-demand conditions and other economic considerations, such as distance to market. They are minimum prices, so farmers and their cooperatives have leeway to negotiate higher "premium" prices with dealers who buy their milk.

The Federal orders don't set retail milk prices, control production, or prevent the farmer from selling his milk to any dealer he chooses.

This method of creating economic stability gives the farmer the confidence he needs to make long-range plans and investments in better equipment for producing high quality milk. And the milk dealer, who processes and ships milk from producers, knows that his competitor isn't buying milk from farmers at cut-rate prices.

Sequence of procedures

The orders are issued and updated by the Secretary of Agriculture only after a sequence of procedures. This usually begins with a proposal from dairy farmers or dairy organizations. Proposals also may come from handlers or consumers.

If the U.S. Department of Agriculture determines that the proposal has merit, it is made the subject of a public hearing where farmers, milk handlers, consumers--anyone affected by the proposal--can make their views part of the official record.

A "recommended" decision based on the hearing evidence is issued by USDA with time allowed for additional comments by mail. A "final decision and order" is issued by USDA after all exceptions are considered.

The last step is a referendum. Producers, voting individually or through their cooperatives, vote on the proposal. At least two-thirds of the dairy farmers whose prices are determined by the order must indicate approval to put any marketing order into effect.

Each Federal milk marketing order is administered by a local market administrator appointed by the Secretary of Agriculture. The Secretary and his staff of marketing specialists in USDA's Agricultural Marketing Service see to it that the orders operate within the law. Thus, a Federal milk marketing order becomes a legal instrument, with the force of law. And Government helps to assure an appropriate balance between the interests of farmers, milk handlers, and the general public.

Milk marketing orders have been flexible enough in their 37-year history to cope with ever-changing dairy industry developments such as these recent trends:

--increasing mobility of milk, which travels hundreds or sometimes as much as a thousand miles from the farm to the dinner table;

--milk distributors supplying several metropolitan areas with milk packaged at one plant;

--supermarkets taking an active role in processing and distribution; and

--an increasing number of dairy farmers meeting sanitation requirements for producing milk for drinking, as opposed to manufacturing uses.

Common interests

The dairy farmer, milk dealer, and consumer need each other. If retail milk prices are too high, consumers buy less milk, so prices drop. When prices farmers receive drop too low in relation to their costs, production is curtailed. Reduced production of milk--immediately after a time when consumers bought more because of lower prices--pushes prices back up. Unreasonable "ups" and "downs" in supply and prices hurt both milk producers and consumers.

There will always be some fluctuations in milk supplies and in prices. But, Federal milk marketing orders operate to reduce the unsettling "stop" and "go" signals to production so milk can flow with less interruption from cow to consumer.

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